

CITY OF MILAN  
Washtenaw and Monroe Counties, Michigan

AUDITED FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Milan</b>	County <b>Monroe, Washtenaw</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>9/15/04</b>	Date Accountant Report Submitted to State: <b>11/10/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting System for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

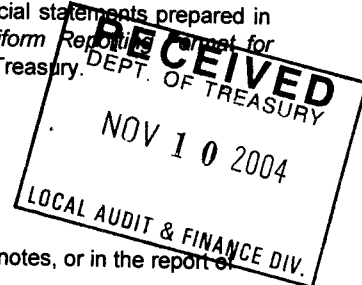
You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Post, Smythe, Lutz and Ziel LLP</b>			
Street Address <b>1034 West Ann Arbor Trail</b>		City <b>Plymouth</b>	State <b>MI</b>
Accountant Signature <i>David R. Wells CPA</i>		ZIP <b>48170</b>	Date <b>11.10.04</b>



CITY OF MILAN  
For the Year Ended June 30, 2004

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FINANCIAL SECTION

# POST, SMYTHE, LUTZ AND ZIEL LLP

*Certified Public Accountants*

## PLYMOUTH

Dennis M. Siegner, C.P.A., C.V.A.  
David R. Williamson, C.P.A.  
Jane F. Wang, C.P.A.  
Joseph N. Elder, C.P.A.

1034 W. ANN ARBOR TRAIL  
PLYMOUTH, MICHIGAN 48170-1502

TELEPHONE: (734) 453-8770  
FAX: (734) 453-0312

## WAYNE

Frank W. Smythe, C.P.A.  
Ronald H. Traskos, C.P.A.  
Kathy Billings, C.P.A.

Marty C. Morrison, C.P.A.  
Rana M. Emmons, C.P.A.  
Jennifer A. Galofaro, C.P.A., C.V.A.  
Susan H. Bertram, C.P.A.

Sharon Walz Duckworth, C.P.A.  
Cari A. Ford, C.P.A.  
Wendy Leung Lee, C.P.A.  
Therese Mulholland, C.P.A.

## Independent Auditor's Report

September 15, 2004

To the Honorable Mayor and  
Members Of City Council  
City Of Milan  
Milan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City Of Milan, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City Of Milan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City Of Milan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2004.

Honorable Mayor and  
Members Of City Council  
City Of Milan, Michigan  
September 15, 2004

The management's discussion and analysis and the defined benefit pension plans trend information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City Of Milan's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in cursive script that reads "Post, Smythe, Lutz & Ziel".

POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants

# City of Milan

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Office of Clerk/Treasurer  
Sherry L. Steinwedel, CMC

147 Wabash St. • Milan, Michigan 48160-1594  
Telephone: (734) 439-1501 Fax: (734) 439-3925  
Email: SherryS@ci.milan.mi.us

## Management's Discussion and Analysis

As management of the City of Milan, we offer readers of the City of Milan's financial statements this narrative overview and analysis of the financial activities of the City of Milan for the fiscal year ended June 30, 2004.

### Financial Highlights

- The assets of the City of Milan exceeded its liabilities at the close of the most recent fiscal year by \$19,943,656 (*net assets*). Of this amount, \$765,285 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Milan's governmental funds reported combined ending fund balances of \$761,305, a decrease of \$750,487 in comparison with the prior year. Approximately 64% of this total amount, \$493,249 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$235,149, or 6 percent of total general fund expenditures.
- The City of Milan's total debt decreased by \$470,588 (12 percent) during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Milan's basic financial statements. The City of Milan's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Milan's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Milan's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Milan is improving or deteriorating.



The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Milan that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Milan include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities of the City of Milan include the water and sewer system, public transit, storm sewer, and Mooreville sewer.

The government-wide financial statements include not only the City of Milan itself (known as the *primary government*), but also a legally separate Brownfield Redevelopment Authority, and other "now major" component units for which the City of Milan is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Milan, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Milan can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing

so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Milan maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Arkona Road, Special Assessment Debt Service Fund, and Arkona Road Capital Project Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Milan adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The City of Milan maintains four proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Milan used enterprise fund to account for its water and sewer activity, and the public transit fund as well as the other "not major" proprietary funds. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Milan's various functions. The City of Milan uses an internal service fund to account for its fleet of vehicles, and other equipment. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Milan's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 20-21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-47 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Milan's progress in funding its obligation to

provide pension benefits to its employees. Required supplementary information can be found on page 48 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 50-62 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Milan, assets exceeded liabilities by \$19,943,656 at the close of the most recent fiscal year.

By far the largest portion of the City of Milan's net assets (92 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Milan used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Milan's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### CITY OF MILAN Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$ 3,095,691	\$ 2,074,766	\$ 1,445,578	\$ 1,112,978	\$ 4,541,269	\$ 3,187,744
Capital Assets	8,581,387	8,033,277	13,197,236	13,033,859	21,778,623	21,067,136
Total Assets	11,677,078	10,108,043	14,642,814	14,146,837	26,319,892	24,254,880
Long-term Liabilities Outstanding	2,178,916	1,986,532	1,345,333	1,831,665	3,524,249	3,818,197
Other Liabilities	2,378,477	724,612	473,510	223,514	2,851,987	948,126
Total Liabilities	4,557,393	2,711,144	1,818,843	2,055,179	6,376,236	4,766,323
Net Assets:						
Invested in Capital Assets, net of related debt	6,464,826	6,833,978	11,882,238	11,202,194	18,347,064	18,036,172
Restricted	268,056	151,745	305,147	275,037	573,203	426,782
Unrestricted	386,803	411,176	636,586	614,427	1,023,389	1,025,603
Total Net Assets	\$ 7,119,685	\$ 7,396,899	\$ 12,823,971	\$ 12,091,658	\$ 19,943,656	\$ 19,488,557

An additional portion of the City of Milan's net assets (2.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$1,023,389) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Milan is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$455,099 during the current fiscal year as shown in the table below, which will be comparative in fiscal year ending 2005:

	Governmental Activities 2004	Business Activities 2004	Total 2004
Program Revenues			
Charges for Services	\$ 1,286,416	\$ 1,583,106	\$ 2,869,522
Operating Grants & Contributions	466,879	225,765	692,644
Capital Grants & Contributions	48,000	784,359	832,359
General Revenues			-
Property Taxes	2,873,590	-	2,873,590
State Shared Revenues	462,513	-	462,513
Unrestricted Investment Earnings	11,263	(9,211)	2,052
Transfers	(302,431)	251,374	(51,057)
Gain on Sale of Assets	-	600	600
Total Revenues	4,846,230	2,835,993	7,682,223
Program Expenses			
General Government	1,308,216	-	1,308,216
Public Safety	1,664,150	-	1,664,150
Public Works	1,550,796	-	1,550,796
Health and Welfare	90,470	-	90,470
Recreation and Cultural	437,293	-	437,293
Interest on Long-Term Debt	72,519	-	72,519
Water and Sewer	-	1,662,796	1,662,796
Transit	-	421,410	421,410
Other	-	19,474	19,474
Total Expenses	5,123,444	2,103,680	7,227,124
Change in Net Assets	\$ (277,214)	\$ 732,313	\$ 455,099

**Governmental activities.** Governmental activities decreased the City of Milan's net assets by \$(277,214). Key elements of this decrease are as follows:

- Transfer to Water and Sewer Proprietary Fund \$530,000 from the general fund, offset by \$250,000 transfer to the 2005 wastewater treatment capital project fund.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

**Business-type activities.** Business-type activities increased the City of Milan's net assets by \$732,313, accounting for all of the total growth in the government's net assets. Key elements of this increase are as follows:

- Capital grant for acquisition of buses \$311,323 (Transit), received from the State.
- Capital contributions (water & sewer) \$422,236

### **Financial Analysis of the Government's Funds**

As noted earlier, the City of Milan used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Milan's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Milan's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Milan's governmental funds reported combined ending fund balances of \$761,305, a decrease of \$(750,487) in comparison with the prior year. Approximately 64% of this total amount (\$493,249) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$91,267), 2) to accomplish capital projects (\$176,789).

The general fund is the chief operating fund of the City of Milan. At the end of the current fiscal year, unreserved fund balance of the general fund and the total fund balance was \$235,149. Unreserved fund balance represents 6.08 percent of total general fund expenditures.

The fund balance of the City of Milan's general fund decreased by \$(186,371) during the current fiscal year. Key factors were as follows:

- The City of Milan resolved a long-standing dispute with a large taxpayer, over personal property tax valuations in the amount of \$153,596.

**Proprietary funds.** The City of Milan's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$578,279. The total growth in net assets was \$472,531. Other factors concerning the finances of the fund have already been addressed in the discussion of the City of Milan's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were (\$198,985 increase in appropriations) and can be briefly summarized as follows:

- The City of Milan resolved a long-standing dispute with a large taxpayer, over personal property tax valuations in the amount of \$153,596.

### **Capital Asset and Debt Administration**

**Capital assets.** The City of Milan's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$21,778,623 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads and highways. The total increase in the City of Milan's investment in capital assets for the current fiscal year was 3.4 percent (a 6.8 percent increase for governmental activities and a 1.25 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- The reconstruction of a portion of Arkona Road.
- The lease purchase of a new Vactor truck.
- The receipt of a grant for the purchase of 6 transportation buses.

Details to the City's capital assets are continued in the notes to the financial statements on pages 36 to 37.

**Long-term debt.** At the end of the current fiscal year, the City of Milan had total bonded and installment debt outstanding of \$3,524,249. Of this amount, \$3,389,249 comprises debt backed by the full faith and credit of the government and \$135,000 represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Additional information on the City of Milan's long-term debt can be found in note D on pages 40-41.

### **Economic Factors and Next Year's Budgets and Rates**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state shared revenues. The City of Milan's millage rate was reduced again by the Headlee Amendment rollback to 18.9974 for general operating purposes however we only levy 15.75

mills. These factors were considered in preparing the City of Milan's budget for the 2004 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$235,149. The City of Milan has presented a balanced budget in the 2004 fiscal year budget, as there was no unreserved fund balance to appropriate.

The Water and Sewer Fund rates were increased for the 2005 budget year. The water and sewer rates were decreased by an average of four (4%) percent for all customers due to an increase in customers. However, the sewer connection fees increased to finance the debt service and the ongoing water and sewer system improvements.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Milan's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk-Treasurer, 147 Wabash Milan, MI 48160.

BASIC FINANCIAL STATEMENTS



**CITY OF MILAN**  
**Statement of Net Assets**  
**June 30, 2004**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 531,350	\$ 217,105	\$ 748,455	\$ 49,554
Investments	351,624	215,328	566,952	121,410
Receivables (net of allowance for uncollectibles):				
Taxes	61,979	-	61,979	-
Special Assessments	1,661,122	-	1,661,122	-
Accounts	120,367	312,597	432,964	101
Due from Component Units	2,000	-	2,000	-
Due from Other Governmental Units	50,258	36,882	87,140	-
Due from Primary Government	251,774	241,000	492,774	-
Inventory	-	61,904	61,904	-
Prepaid Expenditures	65,217	55,615	120,832	560
Restricted Assets - Investments	-	287,707	287,707	-
Restricted Assets - Other	-	17,440	17,440	-
Capital Assets (Net of Accumulated Depreciation)	8,581,387	13,197,236	21,778,623	-
Total Assets	<u>11,677,078</u>	<u>14,642,814</u>	<u>26,319,892</u>	<u>171,625</u>
<b>LIABILITIES</b>				
Accounts Payable	194,941	181,197	376,138	2,765
Accrued Liabilities	281,232	41,739	322,971	-
Due to Primary Government	241,182	250,574	491,756	2,000
Deferred Revenue	1,661,122	-	1,661,122	-
Noncurrent Liabilities:				
Due within one year	190,708	545,000	735,708	-
Due in more than one year	1,988,208	800,333	2,788,541	-
Total Liabilities	<u>4,557,393</u>	<u>1,818,843</u>	<u>6,376,236</u>	<u>4,765</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, net of related debt	6,464,826	11,882,238	18,347,064	-
Restricted for:				
Capital Projects	176,789	-	176,789	-
Debt Service	91,267	305,147	396,414	-
Unrestricted	386,803	636,586	1,023,389	166,860
Total Net Assets	<u>\$ 7,119,685</u>	<u>\$ 12,823,971</u>	<u>\$ 19,943,656</u>	<u>\$ 166,860</u>

**CITY OF MILAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2004**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
<b>Functions/Programs</b>				
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 1,308,216	\$ 394,877	\$ -	\$ -
Public Safety	1,664,150	44,702	50,170	-
Public Works	1,550,796	606,952	383,369	48,000
Health and Welfare	90,470	1,238	-	-
Recreation and Cultural	437,293	126,290	33,340	-
Interest on Long-Term Debt	72,519	112,357	-	-
Total Governmental Activities	<u>5,123,444</u>	<u>1,286,416</u>	<u>466,879</u>	<u>48,000</u>
Business-type Activities:				
Water and Sewer	1,662,796	1,542,997	-	422,236
Transit	421,410	40,109	225,765	311,323
Other	19,474	-	-	50,800
Total Business-type Activities	<u>2,103,680</u>	<u>1,583,106</u>	<u>225,765</u>	<u>784,359</u>
Total Primary Government	<u>\$ 7,227,124</u>	<u>\$ 2,869,522</u>	<u>\$ 692,644</u>	<u>\$ 832,359</u>
Component Units	<u>\$ 75,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:  
Property Taxes  
State Shared Revenue  
Unrestricted Investment Earnings  
Gain on Sale of Capital Assets  
Transfers In (out)  
Total General Revenues and Transfers

Change in Net Assets  
Net Assets - Beginning

Net Assets - Ending

**Net (Expense) Revenue and Changes in Net Assets**

<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Unit</b>
\$ (913,339)	\$ -	\$ (913,339)	\$ -
(1,569,278)	-	(1,569,278)	-
(512,475)	-	(512,475)	-
(89,232)	-	(89,232)	-
(277,663)	-	(277,663)	-
39,838	-	39,838	-
<u>(3,322,149)</u>	<u>-</u>	<u>(3,322,149)</u>	<u>-</u>
-	302,437	302,437	-
-	155,787	155,787	-
-	31,326	31,326	-
<u>-</u>	<u>489,550</u>	<u>489,550</u>	<u>-</u>
<u>(3,322,149)</u>	<u>489,550</u>	<u>(2,832,599)</u>	<u>-</u>
-	-	-	(75,834)
2,873,590	-	2,873,590	46,067
462,513	-	462,513	2,601
11,263	(9,211)	2,052	-
-	600	600	-
<u>(302,431)</u>	<u>251,374</u>	<u>(51,057)</u>	<u>52,257</u>
<u>3,044,935</u>	<u>242,763</u>	<u>3,287,698</u>	<u>100,925</u>
(277,214)	732,313	455,099	25,091
<u>7,396,899</u>	<u>12,091,658</u>	<u>19,488,557</u>	<u>141,769</u>
<u>\$ 7,119,685</u>	<u>\$ 12,823,971</u>	<u>\$ 19,943,656</u>	<u>\$ 166,860</u>

**CITY OF MILAN**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**

	<u>General</u>	<u>Arkona Rd. Special Assess. Debt Service</u>	<u>Arkona Rd. Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>					
Cash and Cash Equivalents	\$ 200,351	\$ 42,805	\$ 170	\$ 279,706	\$ 523,032
Investments	301,624	-	-	50,000	351,624
Receivables (net of allowance for uncollectibles):					
Taxes	-	-	-	61,979	61,979
Accounts	90,234	-	30,000	-	120,234
Special Assessments	-	1,285,000	-	376,122	1,661,122
Due from Other Funds	130,803	-	-	193,185	323,988
Due from Component Unit	2,000	-	-	-	2,000
Due from Other Governmental Units	17,878	-	-	32,380	50,258
Prepaid Expenditures	62,244	-	-	1,210	63,454
Total Assets	<u>\$ 805,134</u>	<u>\$ 1,327,805</u>	<u>\$ 30,170</u>	<u>\$ 994,582</u>	<u>\$ 3,157,691</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>					
Liabilities:					
Accounts Payable	\$ 99,920	\$ -	\$ 5,000	\$ 82,047	\$ 186,967
Accrued and Other Liabilities	269,883	-	-	-	269,883
Due to Other Funds	200,182	-	3,200	75,032	278,414
Deferred Revenue	-	1,285,000	-	376,122	1,661,122
Total Liabilities	<u>569,985</u>	<u>1,285,000</u>	<u>8,200</u>	<u>533,201</u>	<u>2,396,386</u>
Fund Balances:					
Reserved for:					
Capital Projects	-	-	21,970	154,819	176,789
Debt Service	-	42,805	-	48,462	91,267
Other	-	-	-	-	-
Unreserved for:					
General Fund	235,149	-	-	-	235,149
Special Revenue Funds	-	-	-	258,100	258,100
Total Fund Balances	<u>235,149</u>	<u>42,805</u>	<u>21,970</u>	<u>461,381</u>	<u>761,305</u>
Total Liabilities and Fund Balances	<u>\$ 805,134</u>	<u>\$ 1,327,805</u>	<u>\$ 30,170</u>	<u>\$ 994,582</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

8,050,420

Internal Service Funds are used by management to charge the costs of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

349,603

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(2,041,643)

Net Assets of Governmental Activities

\$ 7,119,685

**CITY OF MILAN**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2004**

	General	Arkona Rd. Special Asess. Debt Service	Arkona Rd. Capital Project	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$ 2,873,590	\$ -	\$ -	\$ -	\$ 2,873,590
Special Assessments	-	42,833	-	69,524	112,357
Licenses and Permits	199,459	-	-	-	199,459
Intergovernmental:					
Federal, State and Local	525,521	-	-	365,118	890,639
Charges for Services	589,394	-	-	239,182	828,576
Fines and Forfeitures	29,045	-	-	-	29,045
Interest	7,803	198	1,581	1,681	11,263
Other	98,939	-	30,000	91,112	220,051
Total Revenues	<u>4,323,751</u>	<u>43,031</u>	<u>31,581</u>	<u>766,617</u>	<u>5,164,980</u>
<b>Expenditures</b>					
Current:					
General Government	896,380	-	-	291,383	1,187,763
Public Safety	1,601,884	-	-	18,049	1,619,933
Public Works	787,479	-	-	319,682	1,107,161
Health and Welfare	90,470	-	-	-	90,470
Recreation and Cultural	409,216	-	-	-	409,216
Debt Service:					
Principal	-	-	-	50,000	50,000
Interest and Other Charges	-	38,049	-	34,470	72,519
Capital Outlay	79,817	-	861,295	97,237	1,038,349
Total Expenditures	<u>3,865,246</u>	<u>38,049</u>	<u>861,295</u>	<u>810,821</u>	<u>5,575,411</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>458,505</u>	<u>4,982</u>	<u>(829,714)</u>	<u>(44,204)</u>	<u>(410,431)</u>
<b>Other Financing Sources (Uses)</b>					
Loan Proceeds	12,375	-	-	-	12,375
Transfers In	3,086	-	-	304,820	307,906
Transfers Out	(608,080)	-	-	-	(608,080)
Transfers Out-Component Unit	(52,257)	-	-	-	(52,257)
Total Other Financing Sources and Uses	<u>(644,876)</u>	<u>-</u>	<u>-</u>	<u>304,820</u>	<u>(340,056)</u>
Net Change in Fund Balances	(186,371)	4,982	(829,714)	260,616	(750,487)
Fund Balances - Beginning	421,520	37,823	851,684	200,765	1,511,792
Fund Balances - Ending	\$ <u>235,149</u>	\$ <u>42,805</u>	\$ <u>21,970</u>	\$ <u>461,381</u>	\$ <u>761,305</u>

**CITY OF MILAN**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2004**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (750,487)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	371,168
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	68,424
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>33,681</u>
Change in net assets in governmental activities	\$ <u><u>(277,214)</u></u>

**CITY OF MILAN**  
**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2004**

	Business Type Activities Enterprise Funds				Governmental Activities - Internal Service
	Water & Sewer	Public Transit	Non Major Funds	Total	Motor Pool Fund
<b>ASSETS</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 180,470	\$ 11,179	\$ 25,456	\$ 217,105	\$ 8,318
Investments	175,328	-	40,000	215,328	-
Accounts Receivable	292,746	19,851	-	312,597	133
Due From Other Funds	241,000	-	-	241,000	10,000
Due From Other Governmental Units:					
Federal	-	7,500	-	7,500	-
State	-	29,382	-	29,382	-
Inventory	61,904	-	-	61,904	-
Prepaid Expense	53,236	2,302	77	55,615	1,763
Total Current Assets	<u>1,004,684</u>	<u>70,214</u>	<u>65,533</u>	<u>1,140,431</u>	<u>20,214</u>
Restricted Assets:					
Investments-Debt Retirement	287,707	-	-	287,707	-
Bond Discount	17,440	-	-	17,440	-
Total Restricted Assets	<u>305,147</u>	<u>-</u>	<u>-</u>	<u>305,147</u>	<u>-</u>
Property, Plant and Equipment:					
Land and Land Improvements	981,712	-	-	981,712	-
Building	8,006,991	34,590	-	8,041,581	-
Water and Sewer Infrastructure	9,290,068	-	-	9,290,068	-
Machinery, Equipment and Vehicles	4,546,834	606,839	-	5,153,673	1,388,466
Construction in Progress	215,962	-	-	215,962	-
Less: Accumulated Depreciation	<u>(10,223,617)</u>	<u>(262,143)</u>	<u>-</u>	<u>(10,485,760)</u>	<u>(857,499)</u>
Net Property, Plant and Equipment	<u>12,817,950</u>	<u>379,286</u>	<u>-</u>	<u>13,197,236</u>	<u>530,967</u>
Total Assets	<u>\$ 14,127,781</u>	<u>\$ 449,500</u>	<u>\$ 65,533</u>	<u>\$ 14,642,814</u>	<u>\$ 551,181</u>
<b>LIABILITIES AND EQUITY</b>					
Current Liabilities:					
Accounts Payable	\$ 175,301	\$ 5,309	\$ 587	\$ 181,197	\$ 7,974
Accrued Liabilities	31,489	10,250	-	41,739	11,349
Due to Other Funds	189,280	61,294	-	250,574	44,982
Current Portion of Contracts Payable	505,000	-	-	505,000	32,408
Current Portion of Bonds Payable	40,000	-	-	40,000	-
Total Current Liabilities	<u>941,070</u>	<u>76,853</u>	<u>587</u>	<u>1,018,510</u>	<u>96,713</u>
Long-Term Liabilities:					
Compensated Absences Payable	30,335	-	-	30,335	-
Contracts Payable	674,998	-	-	674,998	104,865
Bonds Payable	95,000	-	-	95,000	-
Total Long-Term Liabilities	<u>800,333</u>	<u>-</u>	<u>-</u>	<u>800,333</u>	<u>104,865</u>
Equity:					
Invested in Capital Assets, Net of Related Debt	11,502,952	379,286	-	11,882,238	393,694
Restricted	305,147	-	-	305,147	-
Unrestricted	578,279	(6,639)	64,946	636,586	(44,091)
Total Equity	<u>12,386,378</u>	<u>372,647</u>	<u>64,946</u>	<u>12,823,971</u>	<u>349,603</u>
Total Liabilities and Equity	<u>\$ 14,127,781</u>	<u>\$ 449,500</u>	<u>\$ 65,533</u>	<u>\$ 14,642,814</u>	<u>\$ 551,181</u>

**CITY OF MILAN**  
**Statement of Revenues, Expenses and Changes in Fund Equity**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	Business Type Activities Enterprise Funds			Governmental Activities - Internal Service
	Water & Sewer	Public Transit	Non Major Funds	Motor Pool Fund
<b>Operating Revenues:</b>				
Intergovernmental- State	\$ -	\$ 135,829	\$ -	\$ 135,829
Intergovernmental- Federal	-	32,073	-	32,073
Intergovernmental-Local	-	57,863	-	57,863
Charges for Services	1,524,397	40,109	-	1,564,506
Rental Income	18,600	-	-	18,600
Miscellaneous	-	-	-	-
Total Operating Revenues	<u>1,542,997</u>	<u>265,874</u>	<u>-</u>	<u>1,808,871</u>
<b>Operating Expenses:</b>				
Salaries and Fringe Benefits	519,503	240,470	2,815	762,788
Supplies	103,652	17,835	1	121,488
Utilities	184,083	340	-	184,423
Depreciation and Amortization	394,381	69,910	-	464,291
Other	364,644	92,855	16,658	474,157
Total Operating Expenses	<u>1,566,263</u>	<u>421,410</u>	<u>19,474</u>	<u>2,007,147</u>
Operating Income (Loss)	<u>(23,266)</u>	<u>(155,536)</u>	<u>(19,474)</u>	<u>(198,276)</u>
<b>Non-Operating Revenues (Expenses):</b>				
Gain on Asset Sales	-	600	-	600
Interest Earned	7,556	46	237	7,839
Unrealized Loss on Investments	(17,050)	-	-	(17,050)
Interest Expense	(96,533)	-	-	(96,533)
Total Non-Operating Revenues (Expenses)	<u>(106,027)</u>	<u>646</u>	<u>237</u>	<u>(105,144)</u>
Income (Loss) before Operating Transfers	<u>(129,293)</u>	<u>(154,890)</u>	<u>(19,237)</u>	<u>(303,420)</u>
<b>Operating Transfers:</b>				
Operating Transfer In	530,000	73,080	-	603,080
Operating Transfers (Out)	<u>(350,412)</u>	<u>(1,294)</u>	<u>-</u>	<u>(351,706)</u>
Net Operating Transfers	<u>179,588</u>	<u>71,786</u>	<u>-</u>	<u>251,374</u>
Net Income (Loss)	50,295	(83,104)	(19,237)	(52,046)
Capital Contributions	422,236	311,323	50,800	784,359
Fund Equity, Beginning	<u>11,913,847</u>	<u>144,428</u>	<u>33,383</u>	<u>12,091,658</u>
Fund Equity, Ending	<u>\$ 12,386,378</u>	<u>\$ 372,647</u>	<u>\$ 64,946</u>	<u>\$ 12,823,971</u>



**CITY OF MILAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	Business Type Activities Enterprise Funds				Governmental Activities - Internal Service
	Water & Sewer	Public Transit	Non Major Funds	Total	Motor Pool Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers and users	\$ 1,515,253	\$ 20,258	\$ -	\$ 1,535,511	\$ 34,561
Receipts from quasi-external transactions	-	260,522	-	260,522	302,678
Payments to suppliers	(596,773)	(127,606)	(2,815)	(727,194)	(101,296)
Payments to employees	(522,654)	(238,917)	(19,812)	(781,383)	(111,414)
Net Cash Provided (Used) by Operating Activities	395,826	(85,743)	(22,627)	287,456	124,529
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfer from other funds	530,000	73,080	-	603,080	50,000
Transfer to other funds	(350,412)	(1,294)	-	(351,706)	-
Net Cash Provided by Noncapital Financing Activities	179,588	71,786	-	251,374	50,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from Capital Charges	422,236	311,323	-	733,559	-
Proceeds from Debt	-	-	-	-	137,273
Purchases of Capital Assets	(321,910)	(404,144)	-	(726,054)	(289,594)
Principal Paid on Capital Debt	(516,667)	-	-	(516,667)	(19,619)
Interest Paid on Capital Debt	(87,813)	-	-	(87,813)	(1,007)
Proceeds from Sales of Capital Assets	-	98,986	-	98,986	1,329
Net Cash Provided (Used) by Capital and Related Financing Activities	(504,154)	6,165	-	(497,989)	(171,618)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of Investments	(463,035)	-	237	(462,798)	-
Sale and Maturity of Investments	(17,050)	-	-	(17,050)	-
Interest Earned	7,556	46	(39,763)	(32,161)	205
Net Cash Provided (Used) by Investing Activities	(472,529)	46	(39,526)	(512,009)	205
Net Increase (Decrease) in Cash and Cash Equivalents	(401,269)	(7,746)	(62,153)	(471,168)	3,116
Cash and Cash Equivalents, Beginning	581,739	18,925	-	600,664	5,202
Cash and Cash Equivalents, Ending	\$ 180,470	\$ 11,179	\$ (62,153)	\$ 129,496	\$ 8,318
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>					
Operating Income (Loss)	\$ (23,266)	\$ (155,536)	\$ -	\$ (178,802)	\$ (16,846)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation and Amortization Expense	394,381	69,910	-	464,291	112,652
(Increase) Decrease in Receivables	(27,744)	(19,851)	-	(47,595)	(133)
(Increase) Decrease in Due from Other Funds	(238,115)	-	(77)	(238,192)	19,248
(Increase) Decrease in Due from Other Units	-	34,757	-	34,757	-
(Increase) Decrease in Prepaid Expenses	4,618	2,776	-	7,394	7,699
(Increase) Decrease in Inventory	(12,439)	-	-	(12,439)	-
Increase (Decrease) in Accounts Payable	155,208	(646)	-	154,562	3,376
Increase (Decrease) in Accrued Liabilities	(1,946)	1,553	-	(393)	(1,918)
Increase (Decrease) in Due to Other Funds	189,280	(18,706)	-	170,574	451
Increase (Decrease) in Compensated Absences	(3,151)	-	-	(3,151)	-
Increase (Decrease) in Deposits Payable	(41,000)	-	-	(41,000)	-
Net Cash Provided (Used) by Operating Activities	\$ 395,826	\$ (85,743)	\$ (77)	\$ 310,006	\$ 124,529

**City of Milan**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2004**

<u>ASSETS</u>	Retirement Health Savings	Trust Funds	Agency Funds
Cash	\$ -	\$ 19,583	\$ 165
Investments, at Fair Value	165,392	-	-
Due From Other Funds	-	-	182
Accounts Receivable	-	-	291
Total Assets	<u>165,392</u>	<u>19,583</u>	<u>638</u>
 <u>LIABILITIES</u>			
Due to Other	-	1,239	638
Due to Other Funds	-	1,200	-
Total Liabilities	<u>-</u>	<u>2,439</u>	<u>638</u>
 Net Assets Held in Trust			
	<u>\$ 165,392</u>	<u>\$ 17,144</u>	<u>\$ -</u>

**CITY OF MILAN**  
**Statement of Changes in Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2004**

	Retirement Health Savings	Trust Funds
<b><u>ADDITIONS</u></b>		
Investment Income:		
Earnings on Investments	\$ 1,393	\$ 155
Contributions:		
Employer	22,606	-
Employee	22,606	-
	<hr/>	<hr/>
Total Additions	46,605	155
 <b><u>DEDUCTIONS</u></b>		
Benefits Paid	<hr/> 13,040	<hr/> -
 Net Increase (Decrease) Before Transfers	33,565	155
 Transfers to Other Funds	<hr/> -	<hr/> (1,200)
 Net Increase (Decrease)	33,565	(1,045)
 Net Assets Held in Trust		
July 1	<hr/> 131,827	<hr/> 18,189
 June 30	<hr/> \$ 165,392	<hr/> \$ 17,144

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Milan, Michigan, a Municipal Corporation, was established in 1831, chartered as a Village in 1885 and became a City in 1967. Located 12 miles south of Ann Arbor, 45 miles southwest of Detroit and 25 miles north of the Ohio State line, the City covers an area of 3.00 square miles. Milan is a Home-Rule City, which operates under an elected City Council which consists of the Mayor and six Council members, with the daily activity managed by the City Administrator and Department Heads. The City provides services to its more than 5,200 residents in many areas including law enforcement, fire protection, water, sewer, transportation, parks and recreation.

As required by generally accepted accounting principles, these financial statements present the City of Milan and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the government. Each discretely presented component unit has a June 30 year end.

*Discretely Presented Component Units*

The City of Milan Downtown Development Authority (DDA) Board is comprised of the Mayor and eight (8) members appointed by the City Council. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Milan City Council.

The City of Milan Economic Development Corporation (EDC) is governed by a nine (9) member board appointed by the City Council. The EDC was established to promote economic development within the City. The annual operating budget and any modifications require the approval of the Milan City Council.

The City of Milan Brownfield Redevelopment Authority (BRA) was established pursuant to Public Act 381 of 1996 to promote the revitalization of environmentally distressed areas in the City. The BRA is governed by a seven member board appointed by the Milan City Council. The annual operating budget and any modifications require the approval of the Milan City Council.

The City of Milan Historical Commission (HC) was established to preserve the Hack House property. The Historical Commission consists of a five (5) member board appointed by the Milan City Council. The annual operating budget and any modifications require the approval of the Milan City Council.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Reporting Entity - Continued

*Discretely Presented Component Units – Continued*

The above component units are discretely presented with the City general purpose financial statements because they are legally separate and financially accountable to the City. Financial accountability is demonstrated by the City Council making the appointments to the respective Boards, approving the annual operating budgets and any amendments of each component unit and approving the projects undertaken by the BRA and HC and the development and financing plans of the EDC and DDA (Condensed financial information represented below.

STATEMENT OF NET ASSETS - COMPONENT UNITS

	Brownfeild Redevelopment Authority	Other Governmental Funds	Total Component Units
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 38,651	\$ 10,903	\$ 49,554
Investments	121,410	-	121,410
Accounts Receivable	-	101	101
Prepaid Expenses	-	560	560
Total Assets	<u>160,061</u>	<u>11,564</u>	<u>171,625</u>
<u>LIABILITIES</u>			
Accounts Payable	-	2,765	2,765
Due to Primary Government	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Liabilities	<u>2,000</u>	<u>2,765</u>	<u>4,765</u>
<u>NET ASSETS</u>			
Unrestricted	158,061	8,799	166,860
Total Net Assets	<u>\$ 158,061</u>	<u>\$ 8,799</u>	<u>\$ 166,860</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity – Continued

*Discretely Presented Component Units – Continued*

STATEMENT OF ACTIVITIES - COMPONENT UNITS

	Brownfeild Redevelopment Authority	Other Governmental Funds	Total Component Units
Expenses	\$ 3,313	\$ 69,738	\$ 73,051
Program Revenues	-	2,332	2,332
Net Revenues	(3,313)	(67,406)	(70,719)
General Revenues:			
Property Taxes	40,077	5,990	46,067
Transfers in from Primary Government	-	52,257	52,257
Unrestricted investment Earnings (Loss)	(2,595)	81	(2,514)
Change in Net Assets	34,169	(9,078)	25,091
Net Assets-Beginning	123,892	17,877	141,769
Net Assets-Ending	\$ 158,061	\$ 8,799	\$ 166,860

*Joint Venture*

The City is a participant with London Township, Milan Township, and York Township, in the Milan Area Fire Department. The Department was established by inter local agreements between the parties in 1980, and was established to provide fire protection services to the participating communities. The Department is governed by an executive committee consisting of the chief executive from each of the communities, along with appointed members by each community's governing body. No share ownership of the assets are available since the Department does not maintain the separate accounting of the fixed assets required by the agreements. Financial statements are available by contacting the Milan Area Fire Department.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental*

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements - Continued

*activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Arkona Road Special Assessment Debt Service Fund-used to account for financial resources accumulated to pay principal and interest on the special assessment bonds.

Arkona Road Capital Project Fund-established to account for the special assessment bond proceeds, and related construction activities.



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Governmental Funds – Continued

In addition, the City reports on the following fund types:

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The capital project funds are used to account for construction projects and their related revenue sources.

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's enterprise funds are the Water and Sewer Fund and Public Transit funds which are reported as a major funds, and the non major enterprise funds, Storm Sewer , and Mooreville Sewer funds.

Internal Service Funds account for operations that provide services to other departments or agencies of the City on a cost reimbursement basis. As these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental* activities in the government-wide financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds include the following fund types:

The trust funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments or other funds.

The agency funds are used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are accounted for using the modified accrual basis of accounting.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowances for uncollectible accounts, which are recorded \$-0- at June 30, 2004.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Restricted Assets

Resources for the debt service activity within the Water and Sewer Fund (Enterprise Fund) are segregated and classified as "Restricted Assets". Restricted assets total \$305,147 at June 30, 2004.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

5. Capital Assets - Continued

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Equipment	5-20
Infrastructure	15-30

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the Statement of Net Assets. The total liability at June 30, 2004 is \$62,355.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$2,041,643 difference is as follows:

General Obligation Bonds Payable	\$1,979,288
Compensated Absences Payable	<u>62,355</u>
	<u>\$2,041,643</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$371,168 difference is as follows:

Capital Outlay	\$1,038,349
Depreciation Expense	<u>(667,181)</u>
	<u>\$ 371,168</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – Continued

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities - Continued

issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$68,424 difference are as follows:

Principal Repayments	\$ 64,451
Proceeds from long term borrowings	(12,375)
Compensated Absences	<u>16,348</u>
	<u>\$ 68,424</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. In accordance with State law, prior to May 1, the Mayor and City Administrator submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year. Detail line item budgets are included for administrative control. The level of control for the detail budgets is at the department level.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to June 30, the budgets are legally enacted at the activity level for the General Fund and at the total fund expenditure level for the Special Revenue Funds through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

A. Budgetary Information – Continued

5. Budget appropriations lapse at year end.
6. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
7. Budgeted amounts are reported as originally adopted, or as amended by the City Council.

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The Local Street Fund has a fund balance deficit of \$3,569. The City intends on correcting the deficit through cost reductions in the 2004/2005 budget.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level. Expenditures in excess of budget appropriations are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
General Fund:			
D.P.W.	\$ 462,800	\$ 465,949	\$ 3,149
Planning/Zoning	10,153	13,146	2,993

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades.

Deposits (cash and certificates of deposit) are carried at cost which approximates market value. The carrying amount of deposits along with imprest cash of \$350 are separately displayed on the balance sheets as "Cash and Cash Equivalents".

The carrying amount of the City's deposits with financial institutions at June 30, 2004 was \$768,203 and the bank balance was \$855,936 categorized as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$210,000
Uninsured and Uncollateralized	<u>645,936</u>
Total	<u>\$855,936</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

A reconciliation of cash for the primary government follows:

Cash and Cash Equivalents per:	
Statement of Net Assets	\$748,455
Statement of Fiduciary Net Assets	<u>19,748</u>
Total	<u>\$768,203</u>

At June 30, 2004 the carrying amount and bank balances of the component units of the City of Milan are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>FDIC Insurance</u>
Downtown Development Authority	\$ 2,209	\$ 2,205	\$ 2,205
Economic Development Authority	8,389	8,389	1,074
Brownfield Redevelopment Authority	38,651	38,651	743
Historical Commission	<u>305</u>	<u>305</u>	<u>302</u>
	<u>\$49,554</u>	<u>\$49,550</u>	<u>\$ 4,324</u>

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

At year end, the government's investment balances were as follows:

	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Reported Amount/ Fair Value</u>
U.S. Government Securities	\$ -	\$ -	\$ 545,378	\$ 545,378
Money Market Funds	-	-	51,646	51,646
Corporate Bonds Total	-	-	379,045	379,045
Mutual Funds	<u>-</u>	<u>-</u>	<u>165,392</u>	<u>165,392</u>
Total Investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,141,461</u>	<u>\$1,141,641</u>



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

A reconciliation of investments for the primary Government and component unit follows:

Investments per statement on net assets	\$ 566,952
Restricted Assets – Investments per statement of net assets	287,707
Investment – Component Units - per statement of net assets	121,410
Investment Statement of net Fiduciary Assets	<u>165,392</u>
	<u>\$1,141,461</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 73,500	\$ -	\$ -	\$ 73,500
Capital Assets, being depreciated:				
Land Improvements	958,977	-	-	958,977
Building	3,343,966	-	-	3,343,966
Building Improvements	62,359	2,352	-	64,711
Machinery and Equipment	808,242	55,903	-	864,145
Construction in Progress	-	118,799	-	118,799
Infrastructure	7,544,703	861,295	-	8,405,998
Internal Service Fund-	1,125,821	317,765	(55,120)	1,388,466
	<u>13,844,068</u>	<u>1,356,114</u>	<u>(55,120)</u>	<u>15,145,062</u>
Less: Accumulated Depreciation:				
Land Improvements	(571,225)	(44,964)	-	(616,189)
Building	(943,836)	(64,908)	-	(1,008,744)
Building Improvements	(2,582)	(3,111)	-	(5,693)
Machinery and Equipment	(454,396)	(114,658)	-	(569,054)
Infrastructure	(3,140,456)	(439,540)	-	(3,579,996)
Internal Service Fund	(771,796)	(112,652)	26,949	(857,499)
	<u>(5,884,291)</u>	<u>(779,833)</u>	<u>26,949</u>	<u>(6,637,175)</u>
Governmental Activities				
Capital Assets, net	\$ <u>8,033,277</u>	\$ <u>576,281</u>	\$ <u>(28,171)</u>	\$ <u>8,581,387</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

B. Capital Assets – Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 30,500	\$ -	\$ -	\$ 30,500
Capital Assets, being depreciated:				
Milan Public Transit	434,057	305,756	(98,386)	641,427
Water and Sewer	22,689,157	321,912	-	23,011,069
	<u>23,123,214</u>	<u>627,668</u>	<u>(98,386)</u>	<u>23,652,496</u>
Less: Accumulated Depreciation:				
Milan Public Transit	(290,619)	(69,910)	98,386	(262,143)
Water and Sewer	(9,829,236)	(394,381)		(10,223,617)
	<u>(10,119,855)</u>	<u>(464,291)</u>	<u>98,386</u>	<u>(10,485,760)</u>
Business Activities				
Capital Assets, net	\$ <u>13,033,859</u>	\$ <u>163,377</u>	\$ <u>-</u>	\$ <u>13,197,236</u>

Depreciated expense was charged to functions of the primary government as follows:

General Government	\$ 136,801
Public Safety	58,668
Public Works	443,635
Recreation and Culture	28,077
Charged though internal service funds	112,652
	<u>\$ 779,833</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Streets	\$ 247
	Solid Waste	600
	Public Transit	61,294
	Water/Sewer	19,280
	Motor Pool	44,982
	Trust and Agency	1,200
	Arkona Road Cap. Proj.	3,200
		<u>130,803</u>
Water/ Sewer	General Fund	200,000
	Inspection	41,000
		<u>241,000</u>
Major Streets	Forrestry	15,910
Forrestry	Local Streets	7,275
Motor Pool	Local Streets	10,000
Waste Water Treat. Cons.	Water/Sewer	170,000
Payroll Agency	General Fund	182
Total		\$ <u><u>575,170</u></u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers - Continued

2. Interfund Transfers -

Major Streets	Water & Sewer	\$ 7,000
Local Streets	Water & Sewer	20,000
Waste Water Treatment Capital Projects Fund	Water & Sewer	250,000
Youth Fund	General Fund	5,000
General Fund	Transit	1,294
General Fund	Water & Sewer	592
General Fund	Water & Sewer	1,200
General Obligation Debt	Water & Sewer	<u>22,820</u>
		<u>307,906</u>
Water & Sewer	General Fund	530,000
Public Transit	General Fund	<u>73,080</u>
		<u>603,080</u>
Motor Pool	General Fund	<u>50,000</u>
		<u>\$ 960,986</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Balance Within 1 Year
Gov. Activities:					
G.O. Bonds	\$ 255,000	\$ -	\$ 10,000	\$ 245,000	\$ 10,000
Installment Loan	46,364	12,375	14,451	44,288	18,300
Special Assess. Bonds	1,730,000	-	40,000	1,690,000	130,000
Comp. Absences	78,703	-	16,348	62,355	-
Note-Equip.Fund	19,619	137,273	19,619	137,273	32,408
	<u>\$ 2,129,686</u>	<u>\$ 149,648</u>	<u>\$ 100,418</u>	<u>\$ 2,178,916</u>	<u>\$ 190,708</u>
Business Type Activities:					
Rev. Bonds	\$ 175,000	\$ -	\$ 40,000	\$ 135,000	\$ 40,000
Comp. Absences	33,486	-	3,151	30,335	-
Deferred Finance Chg	(33,335)	-	(8,333)	(25,002)	-
Contracts Payable	1,690,000	-	485,000	1,205,000	505,000
	<u>\$ 1,865,151</u>	<u>\$ -</u>	<u>\$ 519,818</u>	<u>\$ 1,345,333</u>	<u>\$ 545,000</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

D. Long Term Debt – Continued

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2004:

	<u>Number of Issues</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Governmental Activities:				
General Obligation Bonds	1	4.50%-5.10%	2018	\$ 245,000
Installment Notes	1	6.50%	2006	44,288
Special Assessment Bonds	2	2.50%-5.10%	2018	1,690,000
Notes Payable Equipment	1	3.830%	2004	137,273
Total Governmental Activities				<u>\$ 2,116,561</u>
Business Type Activities:				
Revenue Bonds Payable	1	5.40%-5.60%	2007	\$ 135,000
Contracts Payable	2	4.30%-4.40%	2007	1,205,000
Total Business Type Activities				<u>\$ 1,340,000</u>

The annual debt service requirements to maturity for debt outstanding as of June 30:

<u>Year Ended</u>	<u>Governmental Activities</u>		<u>Business Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 190,708	\$ 84,916	\$ 545,000	\$ 55,207
2006	198,145	77,980	570,000	25,616
2007	188,104	70,695	225,000	5,250
2008	184,604	64,291	-	-
2009	130,000	57,728	-	-
2010-2014	675,000	211,372	-	-
2015-2019	550,000	62,995	-	-
	<u>\$ 2,116,561</u>	<u>\$ 629,977</u>	<u>\$ 1,340,000</u>	<u>\$ 86,073</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2004, is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>Fund Balance</u>				
Reserved For:				
Capital Projects	\$ -	\$ -	\$ -	\$ 176,789
Debt Service	-	-	91,267	-
Total Reserved	<u>-</u>	<u>-</u>	<u>91,267</u>	<u>176,789</u>
Unreserved:				
Designated	-	-	-	-
Undesignated	<u>235,149</u>	<u>258,100</u>	<u>-</u>	<u>-</u>
Total Unreserved	<u>235,149</u>	<u>258,100</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 235,149</u>	<u>\$ 258,100</u>	<u>\$ 91,267</u>	<u>\$ 176,789</u>



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year; taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills prior to "rollback" required by State laws. The City's tax levy for the 2003 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

<u>Purpose</u>	<u>Authorization</u>	<u>Term</u>	<u>Pre- Rollback Auth. Rate</u>	<u>Post Rollback Auth. Rate</u>	<u>Rate Levied</u>
Operating	Charter	-	20.0000	19.2920	15.7500
				<u>19.2920</u>	<u>15.7500</u>
Total				<u>19.2920</u>	<u>15.7500</u>

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City of Milan is in an agent multiple-employer defined pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2003.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

a. Plan Description - Continued

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal St., Lansing, Michigan 48917-9755.

b. Funding Policy

The plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate; the rate for 2004 was from 10.19% to 53.74%. The contribution requirements of plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

c. Annual Pension Costs

During the fiscal year ended June 30, 2004 the City's contributions totaling \$232,078 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2001. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans - Continued

1. Municipal Employees Retirement System Defined Benefit Plan - Continued

c. Annual Pension Costs - Continued

Fiscal Year Ended <u>June 30,</u>	<u>Three Year Trend Information</u>			
	Valuation Date <u>Dec. 31</u>	Annual Pension Cost (APC) <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension Obligation <u>Obligation</u>
2002	1999	185,004	100%	-0-
2003	2000	217,909	100%	-0-
2004	2001	232,078	100%	-0-

2. Defined Contribution Plan

a. Plan Description

The City of Milan contributes to the City of Milan defined contribution plan, which is a defined contribution money purchase pension plan. The plan is administered by the ICMA Retirement Corporation (ICMA) who sponsors the prototype plan. Amendments are developed by ICMA and submitted to the City Council for approval.

A defined contribution money purchase pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All employees hired on or after July 1, 1998 are eligible to participate in the plan. Contributions made by the City or an employee vest immediately.

b. Contributions Required and Contributions Made

Each participating employee contributes 3% of gross earnings to the plan which the City will match. The employees may contribute an additional 2% for a total of 5% to the plan which will also be matched by the City. Employer contributions on behalf of the employee shall not exceed 5% of an employee's gross earnings. During the year, employee contributions totaled \$32,159 and the City's required and actual contributions amounted to \$32,159.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

V. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits

In addition to providing pension benefits, the City provides certain health care insurance benefits to all full time employees of the City. All eligible full time employees who retire within the guidelines specified by the collective bargaining agreements, or City's personnel policies are entitled to receive benefits at the levels specified in the collective bargaining agreements, or the City's personnel policies, during their retirement. Currently 5 retirees are covered by this plan. These benefits are expensed in the year paid, on a pay-as-you-go basis. For the year ended June 30, 2004, these costs amounted to \$7,756.

C. Risk Management

The City purchases insurance coverage through traditional means. The City's property and liability and workers compensation coverages are on file in the Risk Administrator's office.

D. Major Customers

The City receives a major portion of its revenue generated from utility billing and real estate taxes from certain major customers.

The following is a summary of the fiscal 2004 revenue and percentage of total revenue for its major customers:

	<u>Utility Billing</u>		<u>Property Taxes</u>	
Federal Corrections Institution	\$343,727	23.93%	\$ -	
Visteon Corporations	\$212,962	15.22%	\$1,070,530	37.26%

E. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative excess revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts for the period January 1, 2000 through June 30, 2004 are as follows:

Balance at July 1, 2003	\$(169,459)
Fees Collected	212,936
Expenditures	<u>(236,875)</u>
Excess Revenues Over (Under Expenditures)	<u>\$(193,398)</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2004

V. OTHER INFORMATION – Continued

F. Contingencies

Property Tax Litigation

The City resolved a long standing dispute with a large taxpayer, over personal property tax valuations. The dispute related to 2001-2004 tax years. The settlement resulted in the taxpayer agreeing to the 2001, and 2002 valuations, with settlements involving the 2003 and 2004 valuations. The 2003 settlement (approximately \$150,000) has been recognized as a loss in the financial statements. The 2004 settlement relates to tax collections in the subsequent budget, and the City has made the appropriate budgetary adjustments.

Utility companies have appealed tax assessments for 1997-2004, claiming that the State Tax Council revised depreciation tables adopted in 1999 had retroactive effect. The City is unable to determine the likelihood of the outcome, thus no losses have been recognized. The City taxes in dispute are in excess of \$35,000.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILAN  
Required Supplementary Information – (Unaudited)  
Defined Benefit Pension Plans – Trend Information  
For the Year Ended June 30, 2004

Municipal Employees Retirement System  
Schedule of Funding Progress

Schedule of Funding Progress

<u>Actuarial Covered Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Payroll</u>
12/31/94	\$2,172,951	\$2,935,603	\$ 762,652	74%	\$1,299,831	59 %
12/31/95	2,447,033	3,573,181	1,126,148	68	1,247,941	90
12/31/96	2,716,726	3,701,115	984,389	73	1,369,376	72
12/31/97	3,040,850	4,221,977	1,181,127	72	1,404,607	84
12/31/98	3,507,054	4,853,420	1,346,366	72	1,520,652	89
12/31/99	4,094,880	5,144,094	1,049,214	80	1,553,117	68
12/31/00	4,549,492	6,399,189	1,849,697	71	1,496,671	124
12/31/01	4,885,257	6,856,882	1,971,625	71	1,320,930	149
12/31/02	5,029,143	7,263,495	2,234,352	69	1,343,043	166
12/31/03	5,354,398	7,845,735	2,491,337	68	1,330,272	187

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2003, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases includes inflation at 4.5%	4.50-8.66%
Cost of living adjustments	None

**CITY OF MILAN**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>			<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues:</b>				
Property Taxes	\$ 3,053,197	\$ 3,060,480	\$ 2,873,590	\$ (186,890)
Licenses and Permits	180,300	201,725	199,459	(2,266)
Intergovernmental - Federal	19,000	19,000	19,000	-
Intergovernmental - State	619,457	619,457	480,513	(138,944)
Intergovernmental - Local	26,470	26,470	26,008	(462)
Charges for Services	601,069	602,981	589,394	(13,587)
Fines and Forfeitures	29,150	29,150	29,045	(105)
Interest Earnings	35,000	35,000	7,803	(27,197)
Other Revenues	84,490	95,690	98,939	3,249
<b>Total Revenues</b>	<b>4,648,133</b>	<b>4,689,953</b>	<b>4,323,751</b>	<b>(366,202)</b>
<b>Expenditures:</b>				
<b>General Government:</b>				
City Council	58,253	180,191	79,933	100,258
City Administrator	201,811	204,027	203,605	422
Elections	6,750	6,190	5,117	1,073
Assessor	77,548	77,548	75,046	2,502
Clerk/Treasurer	277,378	277,378	274,631	2,747
City Hall	234,903	258,308	258,048	260
	856,643	1,003,642	896,380	107,262
<b>Public Safety:</b>				
Police	1,328,426	1,307,509	1,256,627	50,882
Fire	156,475	156,475	150,388	6,087
Building	173,106	181,968	181,723	245
Planning and Zoning	17,238	10,153	13,146	(2,993)
	1,675,245	1,656,105	1,601,884	54,221
<b>Public Works:</b>				
Department of Public Works	437,232	462,800	465,949	(3,149)
Sanitation	330,400	322,532	321,530	1,002
	767,632	785,332	787,479	(2,147)
<b>Health and Welfare:</b>				
Senior Citizens	62,902	73,723	73,257	466
Community Promotion	16,700	17,400	17,213	187
	79,602	91,123	90,470	653
<b>Recreation and Cultural:</b>				
Parks and Recreation	418,748	420,748	409,216	11,532
<b>Capital Outlay</b>	<b>113,350</b>	<b>153,255</b>	<b>79,817</b>	<b>73,438</b>
<b>Total Expenditures</b>	<b>3,911,220</b>	<b>4,110,205</b>	<b>3,865,246</b>	<b>244,959</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>736,913</b>	<b>579,748</b>	<b>458,505</b>	<b>(121,243)</b>
<b>Other Financing Sources (Uses):</b>				
Operating Transfers In	-	1,000	3,086	2,086
Operating Transfers Out	(708,104)	(713,104)	(608,080)	105,024
Loan Proceeds	-	-	12,375	12,375
Operating Transfers Out-Component Unit	(52,319)	(52,319)	(52,257)	62
<b>Total Other Financing Sources (Uses)</b>	<b>(760,423)</b>	<b>(764,423)</b>	<b>(644,876)</b>	<b>119,547</b>
<b>Net Change in Fund Balance</b>	<b>(23,510)</b>	<b>(184,675)</b>	<b>(186,371)</b>	<b>(1,696)</b>
<b>Fund Balance - Beginning</b>	<b>421,520</b>	<b>421,520</b>	<b>421,520</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 398,010</b>	<b>\$ 236,845</b>	<b>\$ 235,149</b>	<b>\$ (1,696)</b>



OTHER SUPPLEMENTARY INFORMATION

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2004**

	Special Revenue	Debt Service	Capital Project	Total Nonmajor Governmental Funds
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 204,051	\$ 48,462	\$ 27,193	\$ 279,706
Investments	50,000	-	-	50,000
Accounts Receivable	61,979	-	-	61,979
Special Assessment Receivable	-	376,122	-	376,122
Due from Other Governmental Units	32,380	-	-	32,380
Due from Other Funds	23,185	-	170,000	193,185
Prepaid Expenditures	1,210	-	-	1,210
Total Assets	<u>\$ 372,805</u>	<u>\$ 424,584</u>	<u>\$ 197,193</u>	<u>\$ 994,582</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Accounts Payable	\$ 39,673	\$ -	\$ 42,374	\$ 82,047
Deferred Revenue	-	376,122	-	376,122
Due to Other Funds	75,032	-	-	75,032
Total Liabilities	<u>114,705</u>	<u>376,122</u>	<u>42,374</u>	<u>533,201</u>
Fund Balance:				
Reserved for :				
Capital Projects	-	-	154,819	154,819
Debt Service	-	48,462	-	48,462
Unreserved	258,100	-	-	258,100
Total Fund Balance	<u>258,100</u>	<u>48,462</u>	<u>154,819</u>	<u>461,381</u>
Total Liabilities and Fund Balance	<u>\$ 372,805</u>	<u>\$ 424,584</u>	<u>\$ 197,193</u>	<u>\$ 994,582</u>

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2004**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total Nonmajor Governmental Funds</u>
<b><u>Revenues:</u></b>				
Special Assessments	\$ -	\$ 69,524	\$ -	\$ 69,524
Intergovernmental	365,118	-	-	365,118
Charges for Services	239,182	-	-	239,182
Interest and Rent	1,316	282	83	1,681
Other	91,112	-	-	91,112
Total Revenues	<u>696,728</u>	<u>69,806</u>	<u>83</u>	<u>766,617</u>
<b><u>Expenditures:</u></b>				
General Government	291,383	-	-	291,383
Public Safety	18,049	-	-	18,049
Public Works	319,682	-	-	319,682
Debt Service:				
Principal	-	50,000	-	50,000
Interest and Other Charges	-	34,470	-	34,470
Capital Outlay	1,882	-	95,355	97,237
Total Expenditures	<u>630,996</u>	<u>84,470</u>	<u>95,355</u>	<u>810,821</u>
Excess (Deficiency) of Revenues Over Expenditures	65,732	(14,664)	(95,272)	(44,204)
<b><u>Other Financing Sources (Uses):</u></b>				
Operating Transfers In	<u>32,000</u>	<u>22,820</u>	<u>250,000</u>	<u>304,820</u>
Net Change in Fund Balances	97,732	8,156	154,728	260,616
Fund Balance, July 1	<u>160,368</u>	<u>40,306</u>	<u>91</u>	<u>200,765</u>
Fund Balance, June 30	<u>\$ 258,100</u>	<u>\$ 48,462</u>	<u>\$ 154,819</u>	<u>\$ 461,381</u>

**City of MILAN**  
**Nonmajor Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2004**

	<u>Major Street</u>	<u>Local Street</u>	<u>Drug Enforcement</u>	<u>Solid Waste Community Recycling</u>	<u>Enviromental Defence</u>	<u>Police Training</u>
<b><u>ASSETS</u></b>						
Cash and Cash Equivalents	\$ 73,428	\$ 14,657	\$ 57	\$ 16,913	\$ 6,168	\$ 7,723
Investments	-	-	-	-	20,000	-
Accounts Receivable	-	-	-	-	-	1,163
Due From Other Funds	15,910	-	-	-	-	-
Due From Other Governmental Units	21,277	7,403	-	3,700	-	-
Prepaid Expenditures	<u>155</u>	<u>109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375</u>
Total Assets	<u>\$ 110,770</u>	<u>\$ 22,169</u>	<u>\$ 57</u>	<u>\$ 20,613</u>	<u>\$ 26,168</u>	<u>\$ 9,261</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>						
Liabilities:						
Accounts Payable	\$ 12,609	\$ 8,463	\$ -	\$ 2,010	\$ -	\$ -
Due to Other Funds	<u>247</u>	<u>17,275</u>	<u>-</u>	<u>600</u>	<u>-</u>	<u>-</u>
Total Liabilities	12,856	25,738	-	2,610	-	-
Fund Balance(Deficit):						
Unreserved:						
Undesignated	<u>97,914</u>	<u>(3,569)</u>	<u>57</u>	<u>18,003</u>	<u>26,168</u>	<u>9,261</u>
Total Liabilities and Fund Balance	<u>\$ 110,770</u>	<u>\$ 22,169</u>	<u>\$ 57</u>	<u>\$ 20,613</u>	<u>\$ 26,168</u>	<u>\$ 9,261</u>

<u>E 911</u>	<u>Youth Program</u>	<u>Forrestry</u>	<u>Cable Television</u>	<u>Construction Inspection Engineering</u>	<u>Total</u>
\$ 28,501	\$ 26,642	\$ 9,747	\$ 7,143	\$ 13,072	\$ 204,051
-	-	-	30,000	-	50,000
-	-	-	21,816	39,000	61,979
-	-	7,275	-	-	23,185
-	-	-	-	-	32,380
-	-	-	571	-	1,210
<u>\$ 28,501</u>	<u>\$ 26,642</u>	<u>\$ 17,022</u>	<u>\$ 59,530</u>	<u>\$ 52,072</u>	<u>\$ 372,805</u>
\$ -	\$ 5,673	\$ 470	\$ 3,090	\$ 7,358	\$ 39,673
-	-	15,910	-	41,000	75,032
-	5,673	16,380	3,090	48,358	114,705
<u>28,501</u>	<u>20,969</u>	<u>642</u>	<u>56,440</u>	<u>3,714</u>	<u>258,100</u>
<u>\$ 28,501</u>	<u>\$ 26,642</u>	<u>\$ 17,022</u>	<u>\$ 59,530</u>	<u>\$ 52,072</u>	<u>\$ 372,805</u>

**City of MILAN**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2004**

	Major Street	Local Street	Drug Enforcement	Solid Waste Community Recycling	Enviromental Defence	Police Training
<b><u>Revenues:</u></b>						
Intergovernmental	\$ 240,128	\$ 83,467	\$ -	\$ 14,766	\$ -	\$ 5,265
Charges for Services	478	5,704	-	-	-	-
Interest	326	109	-	135	199	48
Other	-	13,894	11	1,238	-	-
Total Revenues	<u>240,932</u>	<u>103,174</u>	<u>11</u>	<u>16,139</u>	<u>199</u>	<u>5,313</u>
<b><u>Expenditures:</u></b>						
General Government	-	-	-	-	-	-
Public Safety	-	-	-	-	-	3,814
Public Works	171,096	127,575	-	19,727	224	-
Capital Outlay	-	-	-	-	-	-
Total Expenditures	<u>171,096</u>	<u>127,575</u>	<u>-</u>	<u>19,727</u>	<u>224</u>	<u>3,814</u>
Excess (Deficiency) of Revenues Over Expenditures	69,836	(24,401)	11	(3,588)	(25)	1,499
<b><u>Other Financing Sources (Uses):</u></b>						
Operating Transfers In	<u>7,000</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	76,836	(4,401)	11	(3,588)	(25)	1,499
Fund Balance , July 1	<u>21,078</u>	<u>832</u>	<u>46</u>	<u>21,591</u>	<u>26,193</u>	<u>7,762</u>
Fund Balance (Deficit), June 30	\$ <u>97,914</u>	\$ <u>(3,569)</u>	\$ <u>57</u>	\$ <u>18,003</u>	\$ <u>26,168</u>	\$ <u>9,261</u>

<u>E 911</u>	<u>Youth Program</u>	<u>Forrestry</u>	<u>Cable Television</u>	<u>Construction Inspection Engineering</u>	<u>Total</u>
\$ 21,492	\$ -	\$ -	\$ -	\$ -	\$ 365,118
-	-	-	-	233,000	239,182
146	24	11	211	107	1,316
-	33,340	-	42,629	-	91,112
<u>21,638</u>	<u>33,364</u>	<u>11</u>	<u>42,840</u>	<u>233,107</u>	<u>696,728</u>
-	23,365	-	38,625	229,393	291,383
14,235	-	-	-	-	18,049
-	-	1,060	-	-	319,682
-	-	-	1,882	-	1,882
<u>14,235</u>	<u>23,365</u>	<u>1,060</u>	<u>40,507</u>	<u>229,393</u>	<u>630,996</u>
7,403	9,999	(1,049)	2,333	3,714	65,732
-	5,000	-	-	-	32,000
7,403	14,999	(1,049)	2,333	3,714	97,732
<u>21,098</u>	<u>5,970</u>	<u>1,691</u>	<u>54,107</u>	<u>-</u>	<u>160,368</u>
<u>\$ 28,501</u>	<u>\$ 20,969</u>	<u>\$ 642</u>	<u>\$ 56,440</u>	<u>\$ 3,714</u>	<u>\$ 258,100</u>

**City of MILAN**  
**Nonmajor Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2004**

	<b><u>General Obligation</u></b>	<b><u>Northside Special Assessment</u></b>	<b><u>Total</u></b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 368	\$ 48,094	\$ 48,462
Special Assessments Receivable	<u>-</u>	<u>376,122</u>	<u>376,122</u>
Total Assets	<u>\$ 368</u>	<u>\$ 424,216</u>	<u>\$ 424,584</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
Liabilities:			
Deferred Revenue	\$ -	\$ 376,122	\$ 376,122
Fund Balance:			
Reserved for Debt Service	<u>368</u>	<u>48,094</u>	<u>48,462</u>
Total Liabilities and Fund Balance	<u>\$ 368</u>	<u>\$ 424,216</u>	<u>\$ 424,584</u>



**City of MILAN**  
**Nonmajor Debt Service Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2004**

	<b><u>General Obligation</u></b>	<b><u>Northside Special Assessment</u></b>	<b><u>Total</u></b>
<b><u>Revenues:</u></b>			
Special Assessment	\$ -	\$ 69,524	\$ 69,524
Interest	18	264	282
Total Revenues	<u>18</u>	<u>69,788</u>	<u>69,806</u>
<b><u>Expenditures:</u></b>			
Debt Service			
Principal Retirement	10,000	40,000	50,000
Interest, Fiscal Charges	12,820	21,650	34,470
Total Expenditures	<u>22,820</u>	<u>61,650</u>	<u>84,470</u>
Excess (Deficiency) of Revenues Over Expenditures	(22,802)	8,138	(14,664)
<b><u>Other Financing Sources:</u></b>			
Operating Transfers In	<u>22,820</u>	<u>-</u>	<u>22,820</u>
Net Change in Fund Balance	18	8,138	8,156
Fund Balance, July 1	<u>350</u>	<u>39,956</u>	<u>40,306</u>
Fund Balance, June 30	\$ <u><u>368</u></u>	\$ <u><u>48,094</u></u>	\$ <u><u>48,462</u></u>

**City of MILAN**  
**Nonmajor Capital Project Funds**  
**Combining Balance Sheet**  
**June 30, 2004**

	<b><u>Capital Improvement</u></b>	<b><u>Waste Water Treatment</u></b>	<b><u>Total</u></b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 92	\$ 27,101	\$ 27,193
Due from Other Funds	<u>-</u>	<u>170,000</u>	<u>170,000</u>
Total Assets	<u>\$ 92</u>	<u>\$ 197,101</u>	<u>\$ 197,193</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>			
Liabilities:			
Accounts Payable	\$ -	\$ 42,374	\$ 42,374
Fund Balance :			
Reserved for Construction	<u>92</u>	<u>154,727</u>	<u>154,819</u>
Total Liabilities and Fund Balance	<u>\$ 92</u>	<u>\$ 197,101</u>	<u>\$ 197,193</u>

**City of MILAN**  
**Nonmajor Capital Project Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**For the Year Ended June 30, 2004**

	<u>Capital Improvement</u>	<u>Waste Water Treatment</u>	<u>Total</u>
<b><u>Revenues:</u></b>			
Interest Income	\$ 1	\$ 82	\$ 83
<b><u>Expenditures:</u></b>			
Construction	-	95,355	95,355
Excess (Deficiency) of Revenues Over Expenditures	1	(95,273)	(95,272)
<b><u>Other Financing Sources</u></b>			
Operating Transfers In	-	250,000	250,000
Net Change in Fund Balance	1	154,727	154,728
Fund Balance - July 1	91	-	91
Fund Balance - June 30	\$ 92	\$ 154,727	\$ 154,819

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Non Major Proprietary Funds**  
**June 30, 2004**

	<b><u>Storm Sewer</u></b>	<b><u>Mooreville Sewer</u></b>	<b><u>Total</u></b>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash and Cash Equivalents	\$ 19,969	\$ 5,487	\$ 25,456
Investments	15,000	25,000	40,000
Prepaid Expense	<u>77</u>	<u>-</u>	<u>77</u>
 Total Assets	 \$ <u>35,046</u>	 \$ <u>30,487</u>	 \$ <u>65,533</u>
 <b><u>LIABILITIES AND EQUITY</u></b>			
Current Liabilities:			
Accounts Payable	\$ 548	\$ 39	\$ 587
 Equity:			
Unrestricted	<u>34,498</u>	<u>30,448</u>	<u>64,946</u>
 Total Liabilities and Equity	 \$ <u>35,046</u>	 \$ <u>30,487</u>	 \$ <u>65,533</u>

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenses and Changes in Fund Equity**  
**Non Major Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<b>Storm Sewer</b>	<b>Mooreville Sewer</b>	<b>Total</b>
<b><u>Operating Revenues:</u></b>			
Charges for Services	\$ -	\$ -	\$ -
<b><u>Operating Expenses:</u></b>			
Salaries and Fringe Benefits	2,517	298	2,815
Supplies	-	1	1
Other	13,858	2,800	16,658
Total Operating Expenses	<u>16,375</u>	<u>3,099</u>	<u>19,474</u>
Operating Income (Loss)	(16,375)	(3,099)	(19,474)
<b><u>Non-Operating Revenues (Expenses):</u></b>			
Interest Earned	<u>73</u>	<u>164</u>	<u>237</u>
Net Income (Loss)	(16,302)	(2,935)	(19,237)
Capital Contributions	50,800	-	50,800
Fund Equity, Beginning	<u>-</u>	<u>33,383</u>	<u>33,383</u>
Fund Equity, Ending	<u>\$ 34,498</u>	<u>\$ 30,448</u>	<u>\$ 64,946</u>

**CITY OF MILAN**  
**Combining Statement of Cash Flows**  
**Non Major Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<b>Storm Sewer</b>	<b>Mooreville Sewer</b>	<b>Total</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Receipts from customers and users	\$ -	\$ -	\$ -
Receipts from quasi-external transactions	-	-	-
Payments to suppliers	(13,387)	(3,610)	(16,997)
Payments to employees	(2,517)	(298)	(2,815)
Net Cash Provided (Used) by Operating Activities	<u>(15,904)</u>	<u>(3,908)</u>	<u>(19,812)</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Proceeds from Capital Charges	50,800	-	50,800
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>50,800</u>	<u>-</u>	<u>50,800</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Purchase of Investments	(15,000)	(25,000)	(40,000)
Interest Earned	73	164	237
Net Cash Provided (Used) by Investing Activities	<u>(14,927)</u>	<u>(24,836)</u>	<u>(39,763)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	19,969	(28,744)	(8,775)
Cash and Cash Equivalents, Beginning	-	34,231	34,231
Cash and Cash Equivalents, Ending	<u>\$ 19,969</u>	<u>\$ 5,487</u>	<u>\$ 25,456</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b>			
Operating Income (Loss)	\$ (16,375)	\$ (3,099)	\$ (19,474)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization Expense	-	-	-
(Increase) Decrease in Receivables	-	-	-
(Increase) Decrease in Due from Other Funds	-	(848)	(848)
(Increase) Decrease in Prepaid Expenses	(77)	-	(77)
(Increase) Decrease in Inventory	-	-	-
Increase (Decrease) in Accounts Payable	548	39	587
Increase (Decrease) in Accrued Liabilities	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (15,904)</u>	<u>\$ (3,908)</u>	<u>\$ (19,812)</u>

# POST, SMYTHE, LUTZ AND ZIEL LLP

*Certified Public Accountants*

## PLYMOUTH

Dennis M. Siegner, C.P.A., C.V.A.  
David R. Williamson, C.P.A.  
Jane F. Wang, C.P.A.  
Joseph N. Elder, C.P.A.

1034 W. ANN ARBOR TRAIL  
PLYMOUTH, MICHIGAN 48170-1502

TELEPHONE: (734) 453-8770  
FAX: (734) 453-0312

## WAYNE

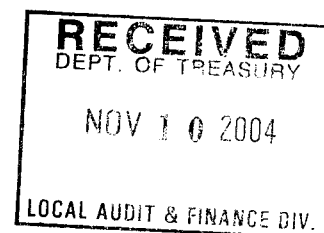
Frank W. Smythe, C.P.A.  
Ronald H. Traskos, C.P.A.  
Kathy Billings, C.P.A.

Marty C. Morrison, C.P.A.  
Rana M. Emmons, C.P.A.  
Jennifer A. Galofaro, C.P.A., C.V.A.  
Susan H. Bertram, C.P.A.

Sharon Walz Duckworth, C.P.A.  
Cari A. Ford, C.P.A.  
Wendy Leung Lee, C.P.A., C.V.A.  
Therese Mulholland, C.P.A.

September 15, 2004

Mayor and City Council  
City of Milan  
Milan, Michigan



In planning and performing our audit of the City of Milan for the year ended June 30, 2004, we have considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions in these areas. This letter does not affect our report dated September 15, 2004, on the financial statements of the City of Milan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional studies or assist in their implementation.

Respectfully,

*Post, Smythe, Lutz + Ziel*  
POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants

#### General Fund Balance

The results of operations from fiscal year 2003/2004 showed a current year reduction of \$186,371 which reduced fund balance to \$235,149. This result left the City with fund balance reserve of 5.4% of general fund revenues.

We recommend that the City determine ways to increase this "reserve" to higher levels in the near term. The City has a non diversified tax base, and should have a higher "rainy day" fund than other communities of similar size.

#### Water System

In our analysis of the system revenues, we determined that the quantity of water produced and pumped to customers exceeded the unit sales to customers, by 13.5%, in spite of the new meter replacement program, and the ongoing monitoring of the larger commercial customers, by the City. These results are similar to the prior fiscal year, and both are much higher than historical results.

The administration is working on means of identifying and reducing the cause of these losses.

#### Code Enforcement Revenues

Due to increased building and development activity in the City, we suggest that the City establish a special revenue fund to account for these activities, as recommend by the State Treasurer. The separate fund will help demonstrate compliance with Public act 245 of 1999, which specified that the revenues can only be used to offset the costs of code enforcement, including indirect overhead costs.

Currently the revenues and expenditures are accounted for in the City's general fund, and the accumulated expenditures exceed the accumulated revenues (measured from the effective date of Act 245) by \$193,398 through June 30, 2004.